FINAL TRANSCRIPT

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WMT - Wal-Mart Stores, Inc. at Goldman Sachs Retail Conference

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PRESENTATION

Adrianne Shapira - *Goldman Sachs - Analyst*

Good afternoon. There has been a tremendous amount of change at Wal-Mart US. While a new team is likely to usher in a new plan, what is not new is the fact that the second half looks to be an opportunity for Wal-Mart. Unlike many of the retail peers we've been hearing about at our conference, Wal-Mart faces easy year-ago comparisons. This, coupled with their proven expense discipline, to us presents an opportunity. Layer on top of that a charged-up management team to drive better sales and we think we have a catalyst.

To help shed light on how this new team will catalyze Wal-Mart US, we're very happy to have Bill Simon, newly promoted from COO to President and CEO of Wal-Mart US.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Thank you, Adrianne. Appreciate it. It is really great to be here. You know, this conference is one that I think every retailer circles on their calendar every year as something that we pay attention to and plan on not missing. So thanks, Adrianne, and thanks to Goldman for putting on this event.

It has been a real interesting couple of months, I have to tell you. I got this new job back in June, and it has been real exciting. Immediately starting to take action, because there were things that we need to do, and I'll try to address that.

But it has been particularly interesting for me. And I've been on a bit of a listening tour, as well, meeting with all kinds of different folks, investors, some of you in this room, as well as associates at all levels in the Company, some Board members, some past Board members, some Wal-Mart retirees, and many, many, many of our suppliers, with a focus really on understanding where we can be better, where we can improve as Wal-Mart and focus on delivering that very, very special proposition for our customers. And of course, I spent a lot of time with Mike Duke, our CEO, and we are all very aligned on the go-forward approach for the US business.

And hopefully, you all were paying attention when we made our second-quarter earnings release. I know I was, because it wasn't where I wanted it to be for the first quarter that I was in the role. Revenue for the US, for Wal-Mart US was flat and our comps were negative. And we talked about in that release about the very aggressive Rollback campaign that we had in place that was designed to drive traffic and stimulate sales. And like everything in life, it had its pluses and its minuses. It did not do what we had hoped it would do. It did, however, drive price perception. It did not drive sales or traffic.

And as those rollbacks expired after the July 4 weekend, the July 4 holiday, we went back and executed a more familiar Wal-Mart Everyday Low Price strategy, and in our business, added back, as you all started to see, some Action Alleys, and our traffic improved in the last month of the quarter. While still negative for the quarter, we did see improvement.

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And I think that's important, because that, combined with very tight management of expenses, which we have been able to do for several quarters now, led us to a reasonably successful quarter from a profit perspective. And our commitment to focus on expenses, as always, remains in place.

Just briefly, I'd like to mention where we think the rest of the year will lend up. As we said in our release, we do hope to see improvement by the fourth quarter in our sales. And I'll talk about how and where we think that will come.

Our back-to-school season, as we had talked in recent quarters, like most seasonal events, came later and closer to the event than it has in the past. And in fact in this case, and I think many other retailers saw the same thing, much of the back-to-school event actually happened after the event, as customers sort of shunned the school list, waited until school started and found out what they really needed and then came in and shopped.

We expect a very, very competitive and aggressive Christmas and holiday selling season, price-focused. We have great competitors out there. Driven by needs, needs and practicality, except for kids, who will be focused on toys and electronics. There is some really new additions to some of the game systems coming out. But for all you adults out there, I think you should plan on socks and underwear for Christmas, because that's going to be what you are going to get -- at least from me.

You know, we talked earlier, too -- I don't need to tell you that our customer remains challenged; the Wal-Mart customer is a bit of a microcosm of the US economy. And I say this not to use it as an excuse, but really for us to acknowledge that we have a responsibility and a duty to figure out how to serve that customer in a challenged time, because that is what we do and that is what our business model is for.

Our customers are focused on their savings, and they need us now more than they ever have. Unemployment, we all know, remains mid-9s and doesn't appear to be going anywhere quickly. Gas prices are high. They don't appear to be going anywhere. We need to figure out how to operate in this environment.

The paycheck cycle we've talked about before remains extreme. It is our responsibility to figure out how to sell in that environment, adjusting pack sizes, large pack at sizes the beginning of the month, small pack sizes at the end of the month. And to figure out how to deal with what is an ever-increasing amount of transactions being paid for with government assistance.

And you need not go further than one of our stores on midnight at the end of the month. And it's real interesting to watch, about 11 p.m., customers start to come in and shop, fill their grocery basket with basic items, baby formula, milk, bread, eggs, and continue to shop and mill about the store until midnight, when electronic -- government electronic benefits cards get activated and then the checkout starts and occurs. And our sales for those first few hours on the first of the month are substantially and significantly higher.

And if you really think about it, the only reason somebody gets out in the middle of the night and buys baby formula is that they need it, and they've been waiting for it. Otherwise, we are open 24 hours -- come at 5 a.m., come at 7 a.m., come at 10 a.m. But if you are there at midnight, you are there for a reason. And we have to look at that and we have to watch that and we have a commitment to serve those customers who need that. And we are very, very focused on that.

Briefly, I would like to give you an idea of where we are going. We started to make some changes in the second quarter to serve our customers better. We did a lot of things over the last couple years that worked and worked well. We did some things that didn't quite work as well as we would have liked. And our challenge is to take what worked and build on it and go faster and to course correct on things that didn't work, and we are focused on that.

Since I'm an optimistic guy, I'm going to start with the things that worked, and I'll tell you briefly what those are and run through those. As an example of what is working in our store, if you look at our electronics presentation, the assortment of merchandise we have, particularly in the hardware side of electronics, I think it is brilliant. It has been very successful. The customers responded to it. The choice and the selection is driving units through that part of the store.

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Our process discipline and inventory management is excellent and continues to be excellent, and we will focus on process improvements and driving operational standards. In fact, many of you might have read about our electronic product code, EPC, program that is rolling out to 3000 stores in our men's apparel area.

These are little radio frequency ID, RFID, tags that are attached to the apparel that allow us to, in an instant with the pull of a trigger or the scan of a reader, to inventory a back room or a rack of apparel for size, color and presentation. It will allow us to take an all-day task of counting and restocking, say, jeans or men's pants down to an hour or so, giving us the ability to more efficiently, more productively stay in stock and drive sales, serving our customers.

Our store standards are working. The stores look great. Our customers tell us that. The fast, friendly, clean initiatives we've been working on for a couple years have been effective, and our scores on a scale of 1 to 10 are now mid to upper 8s. And we are happy with that progress. Customers tell us they like the stores, the store conditions and store standards.

So just to be clear, there has been a lot said and a lot written. I prefer to say rather than returning to the past, we are moving forward, building on what has worked. And we've learned a lot. As I said, we are a learning organization. We have many, many years of history in Wal-Mart practices and principles that allow us to build on that success, and we are doing that.

Some of the things that didn't quite work as well as we should have need to be course corrected, and we are doing that. Sam Walton had a very basic philosophy about how items should be priced and what we should offer to the customer, and we need to focus on that. That is everyday low cost and everyday low price. That is what we are. That is what we need to be very, very good at.

And that means we will have the lowest price on a basket of goods, and that is the EDLP promise. Not necessarily an everyday item promise. That is delivered through our price match guarantee. But EDLP is what our customer has come to expect from us, and that is what has built trust with our customer, and that is what we are going to deliver.

Our customer also relies on us for a very broad merchandise assortment, and we are building that and restoring that into our stores. The promise of a one-stop shop is what we have to deliver.

We built our business on supplier partnerships, and I'll talk about that in a little bit as well. And we are focused on that, win-win opportunities for us and our supplier partners.

Finally, you know, we are a mass merchant, and we will be a mass merchant, and we are very proud of being a mass merchant, where everyone in our store has the opportunity to sell product to our customer. Everybody is a merchant. It was one of Mr. Walton's favorite lines.

And as we do that, it allows us to become not only the large-scale, efficient operator that we are, but the local community store for every community in which we operate. And our store managers are very, very excited and energized about that piece of their business.

How do we get there? Actually, it is very familiar. It is what our strength is. It is the muscle that we've built over 48 years. We will offer a full breadth of assortment, and we will do that by listening to our customers, responding to their needs and their requests. Our customers will decide what we carry, based on what they buy.

We will win in every category in which we compete. We will -- every four foot section of our business will attempt to grow. And our customers will decide what we carry based on what they buy. And after they've made that decision, we will edit and amend our assortment accordingly. We won't carry things that aren't profitable. We don't. We go through SKU deletions every year. But we won't direct the customer to certain categories in the future; they will decide that.

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But right now, we are in the process of reviewing literally billions of items, store combinations of products and item and SKUs that were in stores, and restoring anything and everything that was profitable for us from a GMROI perspective.

And the industry results have been encouraging. We started with dry grocery. We're going as fast as we possibly can. As you can imagine, it is easier in certain categories than it is in others. Dry grocery and consumables are among the fastest. Some will take a little bit longer, and require a cycle -- some cycle time to get back in place.

You've seen it, and we are happy with it. We are restoring Action Alley in most of our stores. We will still have a few stores without Action Alley, primarily in certain demographic areas where the customer tells us that clear aisles are actually improving sales. But for the most part, 80% or better of our stores will have Action Alley features.

Our store managers will participate to a certain extent in what features go in Action Alley, much like they did in the past. About 90% -- 85% to 90% of the items will be selected and driven by the merchants in Bentonville. And the balance will be locally relevant items that the store teams and the field-based merchants will be able to put in place.

We've started the Action Alley program already. We started with products that were available, which were primarily direct store delivery items, like soft drinks and chips and some bakery items, because those were the products that were available. We will have a much more coordinated approach to Action Alley beginning next month and going forward.

I've been spending a lot of my time, as I said earlier, meeting with our suppliers. I've met with most of our large suppliers personally, and many, many of our medium and small suppliers. The message that I'm delivering is that we are open for business and we want to sell your product, that assortment is important to us and that new products are our engine, as well as yours.

We can launch a new product for a supplier better than anybody in retail. A great example is Zyrtec. It is an over-the-counter item that a couple of years back when from prescription to over-the-counter. And we used our systems, our logistics strength, our supply chain, to launch that product in a huge way.

And from a supplier's perspective, you can get your product out there and get market share and trial and penetration much faster through our system than you can anywhere else. It is something that our customers have come to rely on, and it is something that we can do for our suppliers and we are having those discussions again.

There has also been a lot of discussion over the last couple years about our private label program, our private brand program. And I will say it again here. We've said this regularly. We are a house of brands. We prefer to sell national brands. They show our product better -- excuse me -- they show our value better. When the price of Oreos in my store is less than the price of Oreos in a competitor's store, there is no doubt who the price leader is and where the basket win is. And we would prefer to show that as value.

Private brands are still important to us. They play an important role in our business, different by category. They will fill holes or gaps in our offering. On the food side, they will serve to make sure our suppliers remain committed to everyday low cost where we need to. And in certain categories of our business, home and apparel particularly, they will be lead where we don't have the national brand penetration that we wish we did.

We made some changes recently -- last week, in fact -- in our merchandise organization. And somebody asked me earlier today where I had been spending most of my time, and this is the area where I've been spending most of my time.

We organized our merchandise group around four core areas -- the hardlines business, apparel and home, food, and then health and wellness and consumables. And we have four very, very experienced, very talented and qualified leaders appointed as executive vice presidents of those businesses. They are a mix of seasoned and experienced Wal-Mart merchants, with some newer folks who have joined us in the last few years that add a different perspective to it.

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Many of you know -- many of you don't know -- John Westling. John leads -- has been with us since about 1988, and has done just about every job we have in merchandising at Wal-Mart and done it successfully. Most recently, he was Executive Vice President of Pricing, Planning and Replenishment. And John will lead General Merchandise and Replenishment.

We announced that Andy Barron was promoted to Executive Vice President for Home and Apparel. Andy has also been with us for quite a while, since about 1995, I believe. Andy has done two very successful tours through our apparel merchandising group, one in men's and one in our intimates group. He also has led, let's see, electronics, lawn and garden and our hard lines group, and adds a very, very in-depth knowledge of Wal-Mart merchandising and Wal-Mart processes.

Andy has won about every award we have. As one of our most talented merchants, he has been GMM of the year and DMM of the year multiple times. He will serve as a connection point between our apparel business and the home office merchandise processes as we begin to focus on basics in apparel and fashion basics going forward.

Jack Sinclair joined us about three years ago from the UK. He is a Tesco veteran. He runs our food business and he will continue to do that. Jack and his team have made a tremendous amount of progress in our fresh areas, particularly in produce. And I would really encourage you, if you haven't been to one of our Supercenters lately, take a ride across the bridge or through the tunnel to visit one of the stores. Our produce selection and assortment and presentation is really, really improving. And we are very proud of it.

And finally, many of you know from a previous life Duncan MacNaughton. Duncan joined Wal-Mart Canada just under a year ago, and Duncan will join the US business in October, first part of October. And he will run our Consumables, Health and Wellness and Wal-Mart.com business.

Duncan is an experienced retail merchant with a great, great view of respect from most of the suppliers. He did a tour through HEB, as well as Supervalu, and had spent some time with Kraft. A very respected and proven merchant, and we are looking forward to his perspective on the business.

Now, all four of these senior merchants have direct access to me. And just for the record, we have not always had a chief merchant in our business. There have been lots of periods in our history when we have operated this way. And they report directly to me, because the decisions and the changes that need to happen need to happen at pace, quickly, with some speed.

And in order to do that, that requires Wal-Mart knowledge, which is why we've set up with the people that we did -- Wal-Mart merchandise knowledge, merchandising knowledge, resources, more people. And finally, access to decisions for speed. So the way we are set up today with these four senior leaders, I think will allow was to make the merchandise changes that we need to make as quickly as we can possibly make them, so that we can move forward.

Briefly, I would like to talk to you about growth, because growth is available to us and something we are going to focus on going forward. Growth in our current stores through comp sales, and I talked to you about some of the changes that I think will drive that. But growth in some areas and pieces of the business where we still see opportunities.

Many of you heard and read about our Chicago announcement a month or so back. After a lot of time and energy, much of it not successful in urban areas in the US, we took a different approach with Chicago, working very closely with Mayor Daley and his team. And I respect them greatly for this effort.

We have been able to reach an agreement with the City, the City Council and all the constituents in Chicago. And there are a lot of them. For any of you who know how that whole thing works, please explain it to me one day. I think that would be a big help.

We do believe there is an opportunity for us to grow in Chicago, and the announcement we made talked about several dozen stores over the next five years and after. Years and years of City Council votes of 64 to nothing against us, we've had three

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approvals in the last six weeks from the City Council, and we are very, very optimistic about Chicago, and particularly about our opportunities in urban markets.

We will be adding at least 12,000 jobs in the City, and at a time when jobs are a premium, we offer this, in addition to the savings it will offer our customers in the City of Chicago. There will be about 10,000 Wal-Mart associates and about another 2000 construction trade jobs that this will generate.

We will have to be a little creative with formats, more so than we've been in the past. There is not a lot of big, empty lots that we can build 200,000 square-foot Supercenters in, nor do we want to anymore. So we will have a mix, a healthy mix, of Supercenters and small formats, including our grocery format, neighborhood market and smaller formats.

We have lots of learnings around the world from Wal-Mart in small formats. Our group in Mexico and Central America, Latin America operates small formats very well and very profitably, and we are going to beg, borrow, steal and learn from them as quickly as we can, because it is important for our urban strategy.

Supercenters still deliver the best ROI. They will be smaller than they have been in the past, but we will mix them out with some new formats.

We'll have more details on the investment and all that strategy that goes with that at our conference in Bentonville in October.

Finally, I would like to touch briefly on e-commerce and multichannel. Eduardo is leading the e-commerce business, but we really believe there is an opportunity for us in the multichannel, as we blend and deliver the customer what they want, when they want and how they want it.

And I'm not going to talk much about it, but I would like to mention a pilot that we have underway in LA and in Boston, where we now have Site to Store available. And what you say is, well, that's not all that unique. You have had Site to Store for several years. This is Site to Store with a pickup opportunity at FedEx office, formerly known as Kinko's, where now, you can log on to Wal-Mart.com, buy Wal-Mart products and have them shipped to be picked up at FedEx office locations in LA and Boston.

So whether you be near your office, your home, your university or just happen to be passing by, 26 locations in LA and 18 in Boston have access to Wal-Mart, Wal-Mart variety prices and at a very convenient pickup location -- all for free, I might add. And we have seen a very, very positive uptake in that program as it has launched.

So anybody who has heard Mike talk, Mike Duke talk, you know he focuses on growth, leverage and returns and, not so surprisingly, so are we. But you can't have leverage and returns without growth. So growth is important to us. It is important to us because it is important to our customers. Having access to that Wal-Mart promise of everyday low prices is what we do.

We need to work hard every single day to serve our customers, without ever taking our eye off that ball, and that means breadth of assortment, everyday low prices. We have to provide everybody in the country the opportunity that exists at Wal-Mart, which is when you shop at us, you will save $700 a year on your shopping basket. That is substantial for most of our customers. We have to do that in a very, very positive customer experience and keep that going, like we have.

There is a tremendous amount of energy in our stores, our business right now. I love that energy. We get it from our suppliers. Our associates are really focused on serving the customer and on bringing merchandising back into the stores. They know it because it helps us serve our customers, and that is what they are dedicated to.

I am very positive and very optimistic about our business in the long term because of the signs that we see. And I thank you for your time, and I will turn it back over to Adrienne for questions, I think.

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QUESTIONS AND ANSWERS

Adrianne Shapira - *Goldman Sachs - Analyst*

Yes, great. Thank you, Bill. Thank you for sharing your extensive plans. What has really been key for us is looking for positive traffic growth at Wal-Mart. And you've shared pretty extensive plans in terms of how you're looking to change that and the speed.

Maybe give us a sense of -- even in Q2, it sounds as if it has started to improve. But as you are making some of these inventory addbacks and Action Alley, what you are seeing on the traffic front and where it is coming from, specifically, where the customer you are re-attracting.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Well, keep in mind that traffic for us is transactions. And so we didn't ever see a major loss of actual customers, but what we saw was a loss of trips. And the trips, we believe, were driven by inability to fill the order completely with the one-stop shop.

So as we bring back assortment, we believe that we will first start to see a little bit of an uptick in our sales, and then eventually traffic will follow. As customers that are in the building at the time will realize, oh, you have that item that I was looking for, and then that will generate traffic and velocity. So I think that is the approach that we are looking for.

I think we've said that I believe that by the fourth quarter we will have enough of the changes in place to start seeing some of that momentum show up in the P&L.

Adrianne Shapira - *Goldman Sachs - Analyst*

In terms of -- you had mentioned you are looking to win in every category, no longer sort of win, plan, show. And when you think about food, it is pretty much the only category that was slightly positive. A lot of apparel and home, hard lines, we haven't seen positive trends there for some time. If you can give a sense of timetable and how you are prioritizing these categories to win across all of them.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I am very impatient, so I wish it were faster, would be my first answer. As anybody who -- everybody in the room understands retail and the timelines associated with various categories, so we are moving as quickly as we can, and some of the national-branded consumable products have the production capacity to simply gear up for us.

And while those that can, we're taking advantage of that, some of them, the cycle times are just longer and we will have to wait a little bit longer. We are starting in food, consumables; we are starting to move in some of the general merchandise categories. I think our hardware and our fishing, I think, is what I saw most recently, is starting to see some movement on.

But it is going to take a while. As I said, there literally billions of items, store combinations. With 150,000 SKUs in 4000 stores and all kinds of different combinations, you have to go through every single one of them, review them, edit them, put them back in, order them, ship them, and it's going to take some time. I'm not patient, so we are going as fast as we can.

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Adrianne Shapira - *Goldman Sachs - Analyst*

On the inventory front, we had been trained to think about growing inventory at half the rate of sales. Clearly, we perhaps swung the pendulum too far there. But there were a lot of benefits that came with that. Gross margins saw a tremendous amount of opportunities.

In the second quarter, we saw inventory build a bit, sort of 4%, 5%. First, give us a sense of what you think is the right ratio in terms of as you are adding back to the assortments, what we should be thinking about in terms of inventory add-back, and what the implications are for margins.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I think in the long term, half the rate of sales is a great target. And I would tell you that I think that would remain in place. In the near term, while we go through this sort of review and restoration process, I think you will see a slight bump-up in our inventory levels.

We were 4%, I think, at the end of the second quarter, and that is okay. It is a very good quality of inventory. As we were talking earlier, on 4% inventory increase, our turnover was actually higher than it was prior year. So as you add back consumables and some of the items that we are talking about, the turnover is certainly covering the inventory uptick.

I would tell you, though, that we need to remain focused on it. We are still, even with the increase in the second quarter, kind of at 2007, 2008 inventory levels in our business. We had taken our inventory down dramatically over the last two years, and putting a little bit of it back in we think will help sales.

Adrianne Shapira - *Goldman Sachs - Analyst*

And perhaps comment on the margin implications.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

We projected the margins -- I believe we communicated it at the release -- that the fourth quarter we expect to be flat year-on-year.

Adrianne Shapira - *Goldman Sachs - Analyst*

As you are looking to pick up a trip with adding back the inventory, where do you think -- which customer base do you think you lost the trip with? We saw you pick up a higher-end customer at the downturn. Where had you lost a trip?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

It looks from all our data as though that higher-income customer that we picked up is still coming and in fact growing. And that the trip loss that we have, the traffic loss that we have, is in the middle of our business and towards the lower end of our business. And we believe that is primarily from assortment issues, and along with economic issues, that actually are exacerbated by the assortment issues or the other way around.

If you're not sure we have an item and the one-stop shopping promise can't be fulfilled, then gas prices are more relevant and work against us. In an environment where we have the broad assortment that we've historically had and our customers count on us to have, gas prices should be irrelevant and higher gas prices might actually, at one point, work in our favor.

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Adrianne Shapira - *Goldman Sachs - Analyst*

And so, as you are focusing on re-attracting the middle and lower income, it sounds as if on the price perception, the rollbacks were successful. Going forward, what is the plan there to ensure that you maintain that appropriate price perception?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Price perception for us comes in a lot of different ways. The rollbacks did drive it; an item and a price will always do that. And when you have ketchup for a dollar, everybody knows that is a really, really good price, to the point where it is very, very expensive as well.

But our promise needs to be and has been and the trust that we've established with the customer is around the basket, not around the item. And if we can deliver the basket savings that the customers become accustomed to and then use our price match guarantee, which is part of who we are, in the event that somebody on ad gets below an EDLP price, we can be very, very successful.

When you reduce your assortment, which we did, and then focus on items, which we did, it is really difficult to win on the basket, because competitors can choose to match you, and many of them did, on items. And nobody is able to match us on breadth when we are running assortment breadth, which is what we've historically done.

And when the basket is made up of items that are promoted that our competitors match, the basket savings that the customer's come to trust doesn't materialize the way it needs to. So price perception can -- needed to be driven by the basket, by EDLP, and not so much by dollar ketchup.

Adrianne Shapira - *Goldman Sachs - Analyst*

What seems to not have played to your favor is the deflationary environment; EDLP probably makes it tougher in a deflationary environment. Could you tell us where you think we are in terms of perhaps shifting to slight evidence of inflation and how EDLP plays in that environment?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Sure. We have seen in the business some inflationary movement in our dairy and some of the commodity areas. Not a lot, but some. The dry grocery area and consumable areas are still relatively flat to deflationary. And I think in a deflationary environment, as prices are coming down, generally speaking, the customer just sees lower prices in our building and in our competitors' building. And it doesn't really show our EDLP value very well.

In this deflationary environment, I think all economists believe will abate at some stage. They said that last year, too. But when that happens in slight inflationary environments, our scale and our EDLP promise allows customers to trust that we'll have the lowest price the longest. So we can make bigger buys, use our competitive advantage in size and scale to move the product more efficiently, and hold the prices lower longer than most of our competitors, and believe that that suits more of the EDLP approach.

Adrianne Shapira - *Goldman Sachs - Analyst*

You had talked about perhaps focusing a little bit more on the local merchandising effort, sort of going back to the Sam Walton days. Again, we had seen tremendous centralization of the field organization. Now, it seems like maybe a bit more decentralization. Give us a sense of what we think is appropriate where the pendulum you think should reside.

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Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I think, much like everything, there is no right answer to that. The pendulum will move. It needs to move. Centralization brings scale, and scale is a strength of ours. And decentralization brings customer satisfaction and efficiency. And we need to have that as a strength.

In January, we announced an organizational change that built a field merchandise organization that can focus on the last 10%, And that is probably the best way for me to describe it. If we could get to a place -- and this will vary by location -- but 80% to 90% is central, and managed centrally, because they are not that different, and the last 10% or 20% is managed by our stores and our field merchandise organization, then the home office can focus on the 80% or the 90% and deliver the scale that we need to be -- to execute our business model. And the stores and the field-based merchants can execute the 10% or the 20% that is left and focus on that, and really drive the assortment that the local customers need.

Adrianne Shapira - *Goldman Sachs - Analyst*

That's helpful. We're seeing the last 550 remodels now underway. Maybe you can give us a sense of how they are performing. You've made some process improvements to the remodel effort. How is that mitigating disruption and improving the lift?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

The remodel program itself -- and we call it Project Impact; the Project Impact is much more than the remodel program. The remodel program itself actually reassorted the stores and reallocated the space, based on the merchandise strategy that was win-play-show. So it distorted certain areas and it shrunk other areas. And not to any great surprise, we got what we laid out, that we have certain categories that are shrinking dramatically and others that are growing.

And while the customers are generally very happy with the appearance and the shopability of the stores, and we are very pleased with it, because of the merchandise strategy, among other things, we think we can do better. And so we will be looking at that and be discussing it more in October. But as we continue with the program next year, which we are going to do, there will be some updates to it to make sure that they are less disruptive and a little bit more cost-effective.

Adrianne Shapira - *Goldman Sachs - Analyst*

Maybe we can talk a little bit about the expense management. It has clearly been a silver lining over the last three quarters. It sounds as if we should be hopeful the fourth quarter we should see better sales. Maybe that going to be more of the driver for earnings growth.

But help us think about continued opportunity on the expense side, especially as you anniversary the improvements starting in the fourth quarter.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I think it will ebb and flow some, but it is one of our strengths as a Company, and we are always focused on expenses. Some months better than others, some quarters better than others. And I can promise you --you can ask anybody in our business -- that is one of the things that I look at every single day, because it is how we are going to deliver on that promise to the customer.

I think three or four years ago, when I got the Chief Operating role, somebody at our conference in Arkansas asked how much longer do you think you can manage expenses down. And I said then we had only just begun. And I would tell you that we are

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only slightly past we've only just begun. And when we finish, we'll start over again. We've been doing it for 48 years, one -- varying levels of success. But it is a focus of ours. It will remain a focus of ours.

Adrianne Shapira - *Goldman Sachs - Analyst*

Talking about the growth side, it sounds as if urban markets present an opportunity. Maybe give us a sense of, beyond Chicago, what opportunities you see.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Well, lots. You know our market share in urban markets is very low. And I think just because customers live in a city, doesn't mean they shouldn't have access to national brands at the very best prices and an EDLP promise. So we are focused on that everywhere there's an opportunity.

I would tell you there are opportunities that remain outside of urban areas, as well, and suburban and even some rural markets, where we can bring access in one form or fashion to customers. You will see us taking the Chicago approach with other cities. And I think, hopefully, we will have the same level of success. Everybody wants jobs right now.

Adrianne Shapira - *Goldman Sachs - Analyst*

I am assuming we will hear more at the analyst meeting, but if you could help us think about US square footage growth. It sounds as if the Supercenter perhaps still is growing, but perhaps at not the pace that we've been seeing; yet the small formats and urban opportunities are ahead of us. So if you can give us a sense of square footage growth and how you are thinking about it over the next few years in the US.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I think we would be better prepared to handle that in October, if you don't mind waiting that long. I do think there is an opportunity to grow, and we will grow with multiple formats. So that will have a lot of different implications. On square footage growth, it's kind of hard to get into in a little session like this. I would rather lay it out for you in a little more detail.

Adrianne Shapira - *Goldman Sachs - Analyst*

There was a mic in the back of the room, so if anyone has any questions, please. Right here.

Unidentified Audience Member

Two questions. First, given your success off-line, how are you looking to repeat that online? And what is the competitive advantage you think you are going to have online going forward?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I'm sorry, the second question was --.

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Unidentified Audience Member

What is your competitive advantage online that would differentiate you for your competitors, such as Amazon?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I think you have to look at it -- if you look at it as online and off-line or online and brick-and-mortar, it gets kind of fuzzy. What really is going to happen in the future are technology-enabled transactions. And that is where I think we have the opportunity. We call it multichannel, as opposed to online and off-line or online and retail.

And we will talk about that some more in October as well. But you know, we all could sit here and order a pizza delivered to this room with our cell phones, and you don't really know where it came from. You don't know whether it came -- is that online or is it off-line, is it brick-and-mortar or is it retail. And I think it is -- what it is is a technology-enabled transaction. And I think we are very well-positioned to deliver in that environment. We have 4000 small warehouses called Supercenters pre-staged around the US to deliver that technology-enabled transaction.

And I think -- so the answer to your question, I think, is both, how do you differentiate online and off-line is by delivering everyday low prices to customers when they want it where they want it, in this case, enabled by technology.

Unidentified Audience Member

I had a question about brand perceptions and market share and where the customer is going. It seems to me that you have two buckets of potential losses. One bucket is the dollar stores, which have had great traffic gains over the last two years, selling convenience at value that is good enough. So do you see that as a competitive threat, and what can you do about that that actually moves the needle?

And then secondly, there seems to be somewhat of a transition when you went from Lee to Mike, where under Lee, there was more big, impactful announcements that shifted the perception of Wal-Mart, whether it is $4.00 generics or sustainability. Is that still a big objective, and are those big initiatives still forthcoming? Thanks.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

The first question, I think, is -- well, let me answer the second question first, by saying that is probably better asked of Mike in October. But I would tell you that we are still very, very focused on sustainability and healthcare. The $4 prescription program changed -- in fact as far as I can tell, it may be the only thing that has reduced the cost of healthcare in the US to any substantial scale ever. And that has taken billions out of healthcare, not just at Wal-Mart; but competitors who followed actually changed the fundamental dynamic of how that product goes to market. And we are still driving that and doing that in different ways, as well as pressing that program forward.

We are focused on our impact in the environment. And while there are fewer announcements, there is no less work going on. We, earlier this year, launched stores and made an announcement that we are running stores that are driven by renewable energy and fuel cells in California. We are rapidly approaching no landfill -- no-waste-to-landfill status in many states around the US. And our organization is focused on that like a laser beam.

So I don't know, and maybe it's just a style issue, and you would probably best ask those guys, Mike particularly, why he doesn't make the announcements. But I can assure you there is no less work going on. And behind the scenes, there is no less emphasis on either one of those large initiatives.

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We've also been focusing on other areas, and some announcements that you may not have picked up include our contributions to hunger in the US. We made an announcement earlier this year that in cash and in-kind donations, we will be contributing over $2 billion to hunger over the next several years in the US. And I think that is a big announcement and stand by for more.

And I talked so long, I forgot the first question.

Unidentified Audience Member

The dollar stores.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Dollar stores. When you are Wal-Mart, everybody is a competitor. And sometimes when you measure comps and you measure traffic, you measure our traffic and you measure it against a dollar store, and on our scale, with our breadth of assortment by and large, it is hard to measure side by side.

But I acknowledge and we have had our eye on them for a while. They have been able to deliver a value proposition or actually a price point proposition as to our value proposition. And it's serving a need that the customer has, and we recognize that and we are preparing and prepared to take action.

Sometimes you just don't -- you only have $1.00 and you need a bar of soap, and you don't really need eight bars; although our eight bars are a better value. Sometimes the price point is what is more important, and we've got to focus on that, in the right stores at the right time of the month, so that we don't trade customers down. And we've got a find a way to get value to those customers more conveniently. And we are focused against all of that.

Unidentified Audience Member

With Duncan MacNaughton coming to US, how do you see taking advantages of the great urban, suburban and rural opportunities that are underdeveloped for most Supercenters and supermarkets for you in Canada?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Is that a Canada question or a US question?

Unidentified Audience Member

Canada, because of Duncan coming back from Canada to Bentonville.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Well, I think we have a great merchant headed up to Canada to backfill Duncan, and I'll let them talk about that in October as well. And I think you will be very pleased, if you hadn't caught that announcement. We are looking forward to having Duncan. And David Cheesewright and the team in Canada is very excited about the backfill.

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Unidentified Audience Member

Just two questions. First, on women's apparel, it has been a slow wait for improvement in that area. Kind of when can we expect it or if can you update it.

And just second, in her introductions, Adrianne said you had easy second-half comps. Do you view it that way?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I've found out in this job nothing is easy, so I will take her word for what she considers to be easy. We are fighting for every dollar every day.

I'm not going to be the second, third, fourth, fifth or sixth person to stand up here and tell you they are going to fix our apparel business, but we are going to work as hard as we can to fix our apparel business. I think we know what to do. Andy is somebody who has had success in apparel, and both men's and women's.

We are a business that needs to focus on basic and fashion basic, and probably have to show some fashion, and we are going to do that. But by and large, if we can deliver basic apparel and fashion basics to complement them, I think there is a lot of upside for us.

We haven't been focused there. We've headed in that direction a couple times and got distracted. But we are going to be very laser-like focused on growing that segment.

Adrianne Shapira - *Goldman Sachs - Analyst*

Mic -- there's a question here.

Unidentified Audience Member

What are your thoughts on the Target 5% off credit card program and how, if at all, do you think Wal-Mart should respond?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

You know, I will leave that for you to ask Target. We watched it in Kansas City when they piloted it, and didn't see a big impact to our business. Though, they are very excited about it. So when they are excited about something, we need to be watchful.

Our promise is EDLP. It's not credit. It's not getting customers into credit. It's not giving them deals on credit. It's not encouraging credit. It is just buying, moving and selling products at the lowest possible costs. And I think if we do that well, then our business will grow. And Target will do what Target will do. They are a great competitor, and they clearly see something there, and I would ask them.

Adrianne Shapira - *Goldman Sachs - Analyst*

Maybe just let me follow on to Target. What about P-Fresh? What, if any, impact you are seeing as they open P-Fresh formats in your markets?

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Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Again, they are excited about it, and there is a lot of activity around it. And I think where P-Fresh competes with the discount store, we see some impact; not a lot, but some. Where P-Fresh competes with a Supercenter, we are far better off.

Adrianne Shapira - *Goldman Sachs - Analyst*

Bill, you had mentioned that Wal-Mart is a microcosm of the economy, and as your description of the 11 p.m. run for formula suggested, it is still an extreme paycheck cycle. But one of the things that we've been hearing from this conference is pretty encouraging back-to-school trends, and particularly in the discretionary category. So if you look at your consumer and look at the basket, give us a sense of what you are seeing in terms of categories in the basket, discretionary versus defensive.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

For us, I think what we are seeing would mirror the relative successes and challenges that we have in our broader business. When you have reduced your assortment in certain categories by 20%, it is not a shock that you see negative sales in that area. And we are.

So in areas where we have relative strength and a relatively good presentation and assortment, we are seeing similar trends. And in areas where we don't, we are not. And I would tell you that most of our business would reflect that.

Probably not helpful as you guys all plug that into your models. But we do believe that once we are able to deliver the merchandise strategy, the breadth that we need to, that we don't see any reason why our business wouldn't show the same.

Adrianne Shapira - *Goldman Sachs - Analyst*

You would call that consumer-electronics presentation something that has worked. So is that fair to assume the strength in that category?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Well, it is, but -- on the hardware side. But as everybody knows, the price of flat-panel televisions have been coming down as it becomes more available and accessible, so our unit sales are terrific again.

Adrianne Shapira - *Goldman Sachs - Analyst*

You had alluded to -- there is a question up here with the mic. Moves there -- a question up here in the front.

As the mic moves over, just talk about private brands. It sounds as if there too, there is some adjustment. And as you say, you're all about showing value on brands. What do you think is the right percentage of private brands?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

It's hard to give a number because it would vary by category. In apparel, it is certainly much higher than it is in dry grocery. And we will always have to manage it that way.

The Great Value repackaging/repositioning/relaunch -- and it has been called all of those -- had some unintended consequences. When you take a presentation that was over the years designed to deliver an item presentation against a national brand or to

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complement a national brand, whatever the case might be, you take it and you try to brand it nationally, brand it across the box. Whether it be in dry grocery or in laundry bags or in Windex window cleaner, you have created a relationship between those products and a brand presentation that can look like it is bigger than we intended it to be. Did I say that right?

And so it appeared to our customers, along with the assortment reduction in many of these same categories, that we were trying to drive them into private label and not sell national brand. So as you reduced SKUs and you went bold white and similarly branded on Great Value all across the box, the stores looked like they were a Great Value first and national brand second, and that was not the intent, and we are working to try to (multiple speakers) that.

Adrianne Shapira - *Goldman Sachs - Analyst*

So when you add back brands into the assortment, does Great Value have to shrink, or does it just have to be a better balance?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I'll give you the probably the most practical example, and we're in the process of changing this. When we went into our canned vegetable isle, and we had three brands and we still have three brands, though we did reduce some of the assortment. We had national brand A peas next to Great Value peas next to national brand B peas. And then we went corn, green beans, all the way down the line.

We took the assortment of the national brands and reduced the SKUs and then we brand blocked. So we went brand A, peas, corn, carrots, Great Value, big white billboard in the middle, and then national brand B, peas, corn, green beans. And it looked like, when you went down the aisle, this big Great Value billboard. And if you didn't see your national brand item, you either assumed it was discontinued or we were trying to sell you Great Value. And that wasn't the intent, and we are correcting that.

Unidentified Audience Member

At the conference, some of the participants have been talking about inflation in their costs looking out. Some have not seen much inflation in their costs. But can you give us a sense of what you see in terms of inflation out maybe the next year or so in your four major segments?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Again, I'll try to give you a forecast. We are seeing some cost on the food side. We are seeing some cost inflation in some of the dairy areas, or dairy-related areas, grain-related areas. The dry grocery area, not yet. That doesn't seem to be happening.

We have started to get indications from the Orient that in apparel there could be some cost increases next season. But not to the level that it is a showstopper, and we don't believe that our costs are going to be any greater than any of our competitors. And then I think -- that is probably about all we are seeing right now in the business.

Unidentified Audience Member

Bill, could you speak a little bit to Wal-Mart money, both in terms of what your vision is for the business, in terms of where it might go as a percentage of revenues and its role in terms of deepening customer relationships.

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Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Money? Financial Services?

Unidentified Audience Member

Wal-Mart Financial Services.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

We -- the business had been doing very well for us in money services. Money transfers are down as employment is down, and some other issues are driving sort of the transfers between the US and the Latin American countries, which at one point were higher than they are. But our check-cashing business is very robust and remains robust.

It is -- we are adding money centers to many of our stores, where the demographics suggest that we need them. And that piece of business, which by the way doesn't really show up in the sales line of our P&L, has been a rapid growth area for us.

Unidentified Audience Member

Can you establish what your vision is for that business yet, where you want to take it?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

We do have a strategy. That's just not one that I can comment on today.

Unidentified Audience Member

You said it is not a surprise that if you reduce assortment by 20%, you see sales fall. But clearly, there was a conscious decision made to reduce the assortment. So maybe if you go back and can walk us through what the thought process was, why you think it awry, and what you are doing today to address the goal that reducing the assortment was meant to do.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Maybe I should have said it was a surprise, I guess. Because the merchandise strategy -- and I'll -- I was there, so it wasn't as if I wasn't there and wasn't involved in the discussions. It was designed around a merchandise theory that if you distort growth areas and make them bigger, and in order to do that you have to reduce downtrending areas, that your business will get better. And in theory, on paper, in a lab maybe, it is an effective strategy, because then if everything transfers, that would be effective.

What happened in practice was a couple of different things, because there were external forces at play. The first is if you are a merchant, a buyer at Wal-Mart, and you are told your category is shrunk and your plan is minus 15, well, you're going to deliver minus 15, or worse in some cases.

If you are a supplier and you are told your bread and butter at your biggest business is going to be minus 15, well, guess what? You're not going to be minus 15. You're going to pack up your stuff and all your funding and you're going to go somewhere else and sell it. And they did. And they should, because that's what I would do. They have obligations to their shareholders and their companies and college tuitions to pay as well.

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And then I think, finally, if you are a customer and you wanted an item that we used to carry, you don't know whether it is win, play or show. You just know that you made a trip and you know, kind of the Wal-Mart story, almost -- the late-night comedians would say, I went into Wal-Mart for 15 items and I came out with 20. And all too often, we were finding that our customers went in for 15 items and came out with 12. And that, frankly, can't happen.

And so we are going through that over and over again, line by line, item by item, store by store, and making sure that we have the assortment that is relevant for that store. It is the promise that we've delivered for 48 years, and we've just got to make sure that we can continue to deliver it.

So I -- there was thought process behind it. There was testing involved in it. It was done and designed at a different time and a different place in a different economy. And as a learning organization, we've just got to be, I think, reasonably quick at recognizing what is working and what is not working and course correcting. And we may have waited a little too long on that.

Adrianne Shapira - *Goldman Sachs - Analyst*

Bill, you had earlier mentioned you are impatient. The good news is this group is impatient, too, so that is a good marriage. But if you think about what you're grading yourself on and what we should hold you to, what is that?

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I think from where we are today, we have to get better every day, and that is what I look for. It doesn't always happen. I'll be honest with you. We get, like every organization, two steps forward and one step back. But if we can make progress towards the goal of serving our customers, broad assortment, EDLP, EDLC, we will make mistakes.

We still have stores that we are remodeling because we've got permits and we are building, that I know are wrong, that distort certain categories, that I'm going to have to, as soon as the remodel finishes next month, I'm going to have to go in and reassort the remodel. So that is frustrating.

So I know it is sort of two steps forward and one step back. But progress is important, and I am measuring us on progress in the P&L and in the organization. I speak to suppliers often, and I want to understand the tone that our merchants are dealing with the suppliers with. Is it forward and progressive and collaborative, or is it combative and sales preventative? Those are the things that I look at.

Adrianne Shapira - *Goldman Sachs - Analyst*

We are asking all of our retailers three same questions as it relates to the macro, margins and capital allocation. Maybe you could weigh in on the three in terms of the macro, what sort of backdrop you are using as you plan holiday and 2011.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

I think in the short run, the holiday -- I said it in the prepared remarks -- is going to be price competitive. I do think kids are going to get what they want. Customers seem more cautious than distressed. I think we still have unemployment at 9.5% and the other 90.5% are worried. So they will spend money on their kids, but probably not so much on themselves. We expect to see more need-based gifts, as I said, and practical gifts; things you need already, you will get for a Christmas gift.

I think our margin, we also said we expect to be flat through the balance of the year. And what was the third one again?

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Adrianne Shapira - *Goldman Sachs - Analyst*

Capital allocation.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

You'd have to wait until October for that one. We couldn't do it justice in a moment here.

Adrianne Shapira - *Goldman Sachs - Analyst*

Okay. With that, join me in thanking Bill. He is going to be --.

Bill Simon - *Wal-Mart Stores, Inc. - President, CEO of Wal-Mart US*

Thank you. Appreciate it.

Adrianne Shapira - *Goldman Sachs - Analyst*

The Wal-Mart breakout will move to the Majestic Room. Thank you all.

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